

**JOINT FEDERAL/STATE OVERSIGHT TEAM  
FOR  
BELLSOUTH TELECOMMUNICATIONS, INC. (BST)**

**GENERAL STANDARD PROCEDURES  
FOR  
BIENNIAL AUDITS  
REQUIRED UNDER SECTION 272  
OF THE  
COMMUNICATIONS ACT OF 1934, AS AMENDED**

November 10, 2003

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# BELLSOUTH TELECOMMUNICATIONS, INC. (BST)

## BIENNIAL ENGAGEMENT PROCESS

### INTRODUCTION

#### Background

1. Section 272(a) of the Communications Act of 1934, as amended (the Act), requires that a Bell Operating Company (BOC) set up one or more separate affiliates before engaging in manufacturing activities, in-region interLATA services, and interLATA information services. For interLATA information services, this requirement expired on February 8, 2000 in accordance with the Act. Before engaging in the provision of in-region interLATA services, a BOC or an affiliate of the BOC must meet the requirements of Section 271 of the Act and must receive approval by the Federal Communications Commission (FCC). A BOC that is required to operate a separate affiliate under Section 272 must obtain and pay for a joint Federal/State audit every two years.<sup>1</sup>

2. The Commission adopted rules to implement the section 272(d) biennial audit requirement. *See Accounting Safeguards Order* at paras. 197-205; *see also* 47 C.F.R. § 53.209-.213. The Commission's Part 53 rules and accompanying orders govern the conduct of the section 272(d) biennial audit. As stated in the Commission's Part 53 rules, the purpose of the section 272(d) biennial audit is to determine whether the BOC and its section 272 affiliates have operated in accordance with the accounting and non-accounting safeguards required by section 272 of the Act and the Commission's rules. 47 C.F.R. § 53.209 (b) lists the specified compliance requirements of the section 272(d) biennial audit. In addition to specifying the audit requirements, the Commission's rules at 47 C.F.R. § 53.209(d) provide for the establishment of a Federal/State joint audit team that is authorized to oversee the conduct of the audit from planning stage through completion and to "direct the independent auditor to take any actions necessary to ensure compliance with the audit requirements in 47 C.F.R. § 53.209(b)". Although the section 272(d) biennial audit is to be conducted by an independent auditor, the Federal/State joint audit team is also responsible for ensuring that the audit meets the objectives stated in the Commission's rules and orders. 47 C.F.R. §§ 53.209(d) states that the Federal/State joint audit team is responsible for "overseeing the planning of the audit"; 47 C.F.R. §§ 53.211(b) requires the Federal/State joint audit team to review the audit requirements and authorizes the Federal/State joint audit team to modify the audit program; 47 C.F.R. §§ 53.211(c) authorizes the Federal/State joint audit team to approve the audit requirements and program; and 47 C.F.R. §§ 53.211(d) gives the Federal/State joint audit team the right to determine any modifications to the audit program and to be kept apprised of any revisions to the audit program or to the scope of the audit. In accordance with *Statements on Standards For Attestation Engagements*, 10, Paragraph 1.03: "When a practitioner undertakes an attest engagement for the benefit of a government body or agency and agrees to follow specified government standards, guides,

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<sup>1</sup> 47 U.S.C. § 272(d)

procedures, statutes, rules and regulations, the practitioner is obliged to follow those governmental requirements as well as applicable attestation standards.”

3. Working pursuant to delegated authority, the Federal/State joint audit team elected to use the Agreed-Upon Procedures (AUP) form of attestation engagement to meet the objectives specified in the Commission’s rules, *i.e.*, to determine whether the BOC and its section 272 affiliates complied with the relevant accounting and non-accounting safeguards. The American Institute of Certified Public Accountants (AICPA) defines an AUP engagement as “one in which a practitioner is engaged by a client to issue a report of findings based on specific procedures performed on subject matter.”<sup>2</sup> For the purposes of planning this AUP engagement and developing the appropriate audit procedures, the “specified parties” consist of the Federal/State joint audit team (“Oversight Team” or “Joint Oversight Team”) and the company responsible for obtaining and paying for the section 272(d) biennial audits (*i.e.*, BellSouth Telecommunications, Inc. (“BST”). The Oversight Team will be comprised of members from the FCC and members from the state commissions who have jurisdiction over BST in their respective states<sup>3</sup> and who have chosen to participate in the Biennial Audit and have either a signed Protective Agreement or a Protective Order promulgated by the State commission.

The Oversight Team is responsible for reviewing the conduct of the engagement and, after consultation with BST, for directing the practitioner to take such action as the team finds necessary to achieve each audit objective. Consistent with section 53.209(d) of the Commission’s rules, the Oversight Team may direct the independent auditor to take any actions necessary to ensure compliance with the audit requirements of section 53.209(b) as reflected in the engagement letter issued by the Bureau staff and served on BST. If BST disagrees with the Oversight Team’s directions, the oversight Team will issue a written decision describing the directions. BST may, pursuant to section 1.106 or 1.115 of the Commission’s rules, file a petition for reconsideration or application for review of any such direction. The specified parties agree that the independent auditor shall implement the directions of the Oversight Team 10 business days after the date of such direction if BST has not filed an Emergency Petition for Reconsideration by that time. The specified parties agree that once the Chief of the Enforcement Bureau acts on any BST Emergency Petition for Reconsideration, the independent auditor shall immediately implement the directions of the Chief of the Enforcement Bureau. BST. may, pursuant to section 1.115 of the Commission’s rules, file an Application for Review of the Chief of the Enforcement Bureau’s decision. The independent auditor shall implement the Chief of the Enforcement Bureau’s directions even if BST files an Application for Review of the Chief of the Enforcement Bureau’s decision. Should the Bureau or Commission change such direction on reconsideration or review, the independent auditor shall follow the changed direction. In the event that BST’s request for reconsideration or review of the Chief of the Enforcement Bureau’s

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<sup>2</sup> Statement on Standards for Attestation Engagements (SSAE) 10, paragraph 2.03, published by the American Institute of Certified Public Accountants.

<sup>3</sup> Alabama Public Service Commission; Florida Public Service Commission; Georgia Public Service Commission; Kentucky Public Service Commission; Louisiana Public Service Commission; Mississippi Public Service Commission; North Carolina Utilities Commission; Public Service Commission of South Carolina; and Tennessee Regulatory Authority

ruling has not been acted on by the Commission by the date of the filing of the final biennial audit report, the results of any such affected procedures shall be omitted from the final biennial audit report until such time as the Commission issues a final decision; however, the issues under review shall be disclosed in the final biennial audit report as scope limitations. The text below provides the requirements for the engagement as listed in Section 53.209(b) of the FCC rules and indicates the nature, timing, and extent of the AUP for each requirement. It should be noted that AUP engagements are not based on the concept of materiality, therefore, the practitioner must report, in the form of findings, all results from application of the agreed upon procedures.

## **COMPLIANCE REQUIREMENTS**

4. The requirements that will be covered in the Biennial Audit are contained in 47 U.S.C. Section 272(b), (c), and (e) of the Communications Act of 1934, as amended, and in 47 C.F.R. Section 53.209(b) of the FCC rules and regulations. Below is a listing of those requirements:

### **Structural Requirements**

The separate affiliate required under Section 272 of the Act:

- I. Shall operate independently from the Bell operating company;
- II. Shall maintain books, records, and accounts in the manner prescribed by the Commission that are separate from the books, records, and accounts maintained by the Bell operating company;
- III. Shall have officers, directors, and employees that are separate from those of the Bell operating company;
- IV. May not obtain credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the Bell operating company;

### **Accounting Requirements**

The separate affiliate required under Section 272 of the Act:

- V. Shall conduct all transactions with the Bell operating company on an arm's length basis with the transactions reduced to writing and available for public inspection.

The Bell operating company:

- VI. Shall account for all transactions with the separate affiliate in accordance with the accounting principles and rules approved by the Commission.

## **Nondiscrimination Requirements**

The Bell operating company:

- VII. May not discriminate between the separate affiliate and any other entity in the provision or procurement of goods, services, facilities, and information, or the establishment of standards;
- VIII. Shall fulfill any requests from unaffiliated entities for telephone exchange service and exchange access within a period no longer than the period in which it provides such telephone exchange service and exchange access to itself or its affiliates;
- IX. Shall not provide any facilities, services, or information concerning its provision of exchange access to the Section 272 affiliate unless such facilities, services, or information are made available to other providers of interLATA services in that market on the same terms and conditions;
- X. Shall charge its separate affiliate under Section 272, or impute to itself (if using the access for its provision of its own services), an amount for access to its telephone exchange service and exchange access that is no less than the amount charged to any unaffiliated interexchange carriers for such service;
- XI. May provide any interLATA or intraLATA facilities or services to its interLATA affiliate if such services or facilities are made available to all carriers at the same rates and on the same terms and conditions, and so long as the costs are appropriately allocated.

## **Related FCC Dockets**

5. These requirements have been clarified and expanded upon in several FCC proceedings. These proceedings are subject to further modification in subsequent FCC orders, or in orders on reconsideration. Below is a list of FCC orders related to the above requirements:

CC Docket No. 96-149, In the Matter of Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended; *First Report and Order and Further Notice of Proposed Rulemaking*; Released December 24, 1996. Other releases under this docket were issued on February 19, 1997; June 24, 1997; June 10, 1998; September 3, 1999; April 27, 2001

CC Docket No. 96-150, In the Matter of Implementation of the Telecommunications Act of 1996: Accounting Safeguards Under the Telecommunications Act of 1996; *Report and Order*; Released December 24, 1996. Another release under this docket was issued on June 30, 1999

CC Docket No. 96-98, In the Matter of Implementation of the Local Competition Provisions in



the Telecommunications Act of 1996; *First Report and Order*; Released August 8, 1996 (First Interconnection Order); *Second Report and Order and Memorandum Opinion and Order*; Released August 8, 1996 (Second Interconnection Order)

CC Docket No. 96-115, In the Matter of Implementation of the Telecommunications Act of 1996: Telecommunications Carriers' Use of Customer Proprietary Network Information and Other Customer Information; *Second Report and Order and Further Notice of Proposed Rulemaking*; Released February 26, 1998

CC Docket No. 00-199, In the Matter of 2000 Biennial Regulatory Review – Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2; *Report and Order and Further Notice of Proposed Rulemaking*; Released November 5, 2001

6. In addition, the following pending FCC dockets may, if applicable to the activities of the BOC, result in additional regulations surrounding the Nondiscrimination Requirements:

Notice of Proposed Rulemaking, FCC 01-339, released on November 19, 2001, dealing with several dockets, among which, CC Docket No. 01-321 Performance Measurements and Standards for Interstate Special Access Services; CC Docket No. 96-149 Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended; RM 10329 AT&T Corp. Petition to Establish Performance Standards, Reporting Requirements, and Self-Executing Remedies Need to Ensure Compliance by ILECs with Their Statutory Obligations Regarding Special Access Services.

Notice of Proposed Rulemaking, FCC 01-331, released on November 19, 2001, dealing with several dockets, among which, CC Docket No. 01-318 Performance Measurements and Standards for Unbundled Network Elements and Interconnection; CC Docket No. 98-56 Performance Measurements and Reporting Requirements for Operations Support Systems, Interconnection, and Operator Services and Directory Assistance.

The proposed regulations are to be considered by the practitioner only if adopted by the FCC, applicable to Section 272 relationships and to the extent in effect during the engagement period.

## **ENGAGEMENT PLAN**

### **Engagement Period**

7. The AUP engagement shall cover the first 12 months of operations commencing on the day when the Section 272 affiliate is first authorized to provide in-region interLATA service or at such time as a Bell operating company commences manufacturing operations. For purposes of this engagement the audit period will be May 24, 2002 through May 23, 2003. It will include all states where BST has obtained authority to provide in-region interLATA services through a separate 272 affiliate. The engagement will also cover all assets of the 272 affiliate

since the date of inception of the Section 272 affiliate, which shall be the date when it, or its predecessor, was incorporated or the date when it first had assets. The biennial audit will cover all services for which a separate affiliate is required under Section 272(a)(2) and includes all BOCs within the Region and ILEC's providing services to the Section 272 affiliate. The Audit Test Period will be from June 1, 2002 through February 28, 2003, except where noted.

## **Sampling**

8. Certain audit procedures may require testing on a sample basis. The sample sizes and sampling methodologies to be used in performing such audit procedures shall be determined after the initial survey and/or during the performance of the audit of BST and its relationship with its Section 272 affiliate. The practitioner and the specified parties shall make such determinations jointly. During this process, the practitioner shall obtain detailed listings or lists (representing the population of potential items to be tested) for each procedure. For those procedures requiring statistical sampling, the practitioner shall develop detailed statistical parameters that include the total number of items in the universe, the number of items sampled, and the method of selection. Where the users and practitioner indicate, and when appropriate, the practitioner shall select a statistically valid sample using random and stratified sampling techniques with the following parameters: a desired confidence level equal to 95%; a desired upper precision limit equal to 5%; and an expected error rate of 1%. Taking under consideration cost versus benefit to be derived, the Oversight Team shall approve the sampling plan, after consulting with BellSouth Telecommunications, Inc., when reviewing the detailed procedures written by the practitioner and/or during the execution of the procedures.

9. Generally, the practitioner should consider all data and information falling within the engagement period; however, unless otherwise stated in this document or accepted by the Oversight Team, the practitioner should obtain data and information as of the latest period available during the engagement period. For procedures requiring sampling sizes to be based on information available as of or for the end of the ninth month, the practitioner will utilize February 28, 2003 as the relevant date, unless otherwise noted. In addition, to the extent that the companies' processes and procedures change between the time of execution of these procedures and the end of the engagement period, the practitioner has an obligation to test these changes to ensure continued compliance with the Section 272 requirements.

## **Definitions**

10. BOC If the BOC transfers or assigns to an affiliated entity ownership of any network elements that must be provided on an unbundled basis pursuant to Section 251(c)(3), such entity shall be subject to all of the requirements of the BOC. For purposes of this engagement, in the event that the BOC provides exchange and/or exchange access services on a retail or wholesale basis exclusively through one or more of its subsidiaries or affiliates, or through one or more other subsidiaries, divisions, etc., of the parent Regional Holding Company, and the same services cannot be purchased directly from the BOC, then these entities shall also be subject to all of the relevant nondiscriminatory requirements of Objectives VII through XI of this document. Affiliates that merely resell the BOC's exchange services and/or exchange access

services or lease unbundled elements from the BOC, or engage in permissible joint marketing activities (see Section 272(g)(1) of the Act), shall be excluded from these requirements.

11. *BellSouth Telecommunications, Inc.* For the purposes of this engagement, BellSouth Telecommunications, Inc. is the only “Bell Operating Company” serving the nine-state territory and subject to this Biennial Audit and includes any successor or assign of such company as described in ¶10. The term “ILEC” (Incumbent Local Exchange Carrier) includes BST and any successor or assign of such company as described in ¶10.

12. *Affiliate* The term “affiliate” shall refer to a person that (directly or indirectly) owns or controls, is owned or controlled by, or is under common ownership or control with, another person. For this purpose, the term “own” means to own an equity interest (or the equivalent thereof) of more than 10 percent. (See Section 3 of the Communications Act of 1934, as amended.)

13. *BellSouth Telecommunications, Inc. Section 272 Affiliate(s)* The audit procedures are required to be performed, unless otherwise specified, for all Section 272 affiliates as defined by the Act. For the purposes of this engagement, the term “separate affiliate” or “Section 272 affiliate” refers to BellSouth Long Distance, Inc., and any other affiliate that originates InterLATA telecommunications services in the BellSouth region that is subject to Section 272 separation requirements, and any affiliate that engages in manufacturing activities as defined in Section 273(h).

14. *Official Services* Official Services mean those services permitted by the United States District Court for the District of Columbia in *United States v. Western Electric Co. Inc.* See 569 F. Supp. 1057, 1098, n.179 (1983) (defined as “communications between personnel or equipment of an Operating Company located in various areas and communications between Operating Companies and their customers”), and its progeny.

15. *Obtain* For purposes of this engagement, the term “obtain” as referred to in the procedures contained herein, shall mean that the practitioner will physically acquire, and generally retain in the working papers, all documents supporting the work effort performed to adequately satisfy the requirements of a procedure. The practitioner, in their professional judgment, shall decide which items are too voluminous to include in the working papers. The practitioner shall include a narrative description of the size of such items as well as any other reasons for their decision not to include them in the working papers.

## **Conditions of Engagement**

16. The practitioner leading this engagement shall be a licensed CPA. The practitioner’s team performing the engagement shall be familiar with the standards established for an agreed-upon procedures engagement, the requirements for the Biennial Audit, and its objectives. The team performing the engagement shall also be independent as defined in the Statements on Standards for Attestation Engagements (SSAE 10, paragraphs 1.35-1.38) and in

compliance with the independence requirements of the Sarbanes-Oxley Act of 2002. The practitioner shall disclose in its engagement letter to BST how the team shall comply with the independence requirements of the Sarbanes-Oxley Act of 2002. All members of the team performing the engagement shall have a sufficient general understanding of the relevant information contained in the following documents:

- Sections 271 and 272 of the Communications Act of 1934, as Amended;
- Section 32.27, Transactions with Affiliates, of the FCC's Uniform System of Accounts for Telecommunications Companies (USOA);
- The relevant orders and rules from the following FCC Dockets:
  - a. CC Docket No. 86-111 dealing with the allocation of joint costs between the regulated and nonregulated activities of the telephone company;
  - b. CC Docket No. 96-149 dealing with the implementation of the non-accounting safeguards of Sections 271 and 272 of the Act;
  - c. CC Docket No. 96-150 dealing with the implementation of the accounting safeguards of Sections 271 and 272 of the Act;
  - d. CC Docket No. 96-98 dealing with the implementation of the local competition provisions of the Act (the interconnection orders);
  - e. CC Docket No. 96-115 dealing with the use of customer proprietary network information;
  - f. Notice of Proposed Rulemaking, FCC 01-339, released on November 19, 2001, dealing with several dockets, among which, CC Docket No. 01-321 Performance Measurements and Standards for Interstate Special Access Services; CC Docket No. 96-149 Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended; RM 10329 AT&T Corp. Petition to Establish Performance Standards, Reporting Requirements, and Self-Executing Remedies Need to Ensure Compliance by ILECs with Their Statutory Obligations Regarding Special Access Services. The proposed regulations are to be considered by the practitioner only if adopted by the FCC, applicable to Section 272 relationships and to the extent in effect during the engagement period;
  - g. Notice of Proposed Rulemaking, FCC 01-331, released on November 19, 2001, dealing with several dockets, among which, CC Docket No. 01-318 Performance Measurements and Standards for Unbundled Network Elements and Interconnection; CC Docket No. 98-56 Performance

Measurements and Reporting Requirements for Operations Support Systems, Interconnection, and Operator Services and Directory Assistance. The proposed regulations are to be considered by the practitioner only if adopted by the FCC, applicable to Section 272 relationships and to the extent in effect during the engagement period.

- BellSouth Telecommunications, Inc.'s Section 271 application(s) and related FCC approval(s);
- Orders issued by state commissions approving interconnection agreements that are covered in the scope of the engagement;
- Petitions for arbitration with the BOC for those agreements tested within the engagement.

17. In addition, to the extent the practitioner determines procedures included in this plan cannot be performed, the practitioner will propose alternate procedures to the Oversight Team, as appropriate. The practitioner will inform the Oversight Team if the practitioner determines it is necessary to modify the agreed upon procedures or the scope of the engagement, in order to provide the users with all of the information needed to determine compliance with the various requirements. The practitioner shall include any additional hours and fees that would result from revisions of the procedures or of the scope of the engagement. After the practitioner informs the Oversight Team of any revisions to the final audit program or to the scope of the audit, the Oversight Team shall inform BST about these revisions. If BST disagrees with the revisions, the Oversight Team will issue a written decision describing the revisions. These revisions will be subject to the procedures described in paragraph 3 above.

18. The practitioner may use the services of a specialist for assistance in highly technical areas. The practitioner and the specified parties shall explicitly agree to the involvement of any specialist to assist in the performance of the engagement. The specialist shall not be affiliated in any form with BellSouth Telecommunications, Inc.

19. The practitioner's use of internal auditors shall be limited to the provision of general assistance and the preparation of schedules and gathering of data for use in the engagement. Under no circumstances shall the internal auditors perform any of the procedures contained in this document. All the procedures in this document shall be performed by the practitioner.

20. The practitioner shall not use or rely on any of the procedures performed during any of the BST Cost Allocation Manual (CAM) audits to satisfy any of the requirements in Objectives V/VI.

## **Representation Letters**

21. The practitioner shall obtain three types of representation (assertion) letters. The first type of representation letter shall address all items of an operational nature (see para.22). The second type of representation letter shall address all items of a financial nature (see para.23). The third type of representation letter shall state that all Section 272 affiliates have been disclosed (see para.24). The following paragraphs detail the contents of each type of representation letter.

22. The representation letters related to operations issues shall be signed by the Chief Operating Officer or the equivalent of BST, BellSouth Carrier Professional Services (BCPS), and each Section 272 affiliate. The letters shall include the following:

- a. acknowledgement of management responsibility for complying with specified requirements;
- b. acknowledgement of management responsibility for establishing and maintaining an effective internal control structure over compliance;
- c. statement that BST has performed an internal evaluation of its compliance with the specified requirements;
- d. statement that management has disclosed or will disclose to the practitioner all known noncompliance occurring up to the date of the report;
- e. statement that management has made available all documentation related to compliance with the specified requirements;
- f. statement that management has disclosed all communications from regulatory agencies, internal auditors, external auditors, and other practitioners, and any written formal or informal complaints to regulatory agencies from competitors, concerning possible noncompliance with the specified requirements, including communications received between the end of the period addressed in management's assertion and the date of the practitioner's report;
- g. statements that BCPS and any Section 272 affiliate operate independently from BellSouth Telecommunications, Inc.; BST does not own any facilities jointly with BCPS and/or any Section 272 affiliate; BellSouth Telecommunications, Inc., or other affiliates (other than the Section 272 affiliate itself), does not provide any operations, installation, and maintenance functions over the facilities owned by any Section 272 affiliate, or leased by any Section 272 affiliate from unaffiliated entities; no 272 affiliate provides any operations, installation, and maintenance functions over BellSouth Telecommunications, Inc.'s facilities; and BST is not providing and did not provide any research and development that is a part of manufacturing on behalf of either BCPS or any Section 272 affiliate pursuant to Section 272(a);

h. statement that BCPS and any Section 272 affiliate has separate officers, directors, and employees from those of BellSouth Telecommunications, Inc.;

i. statement that BST did not discriminate between itself or any Section 272 affiliate and any other entity in the provision or procurement of goods, services, facilities, and information, or the establishment of standards (on the BST representation letter only);

j. statement that BST has fulfilled requests from unaffiliated entities for telephone exchange service and exchange access within a period no longer than the period in which it provides such telephone exchange service and exchange access to itself or its affiliates (on the BST representation letter only);

k. statement that BST has made available facilities, services, or information concerning its provision of exchange access to other providers of interLATA services on the same terms and conditions as it has made available to any Section 272 affiliate that operates in the same market (on the BST representation letter only).

23. The representation letters related to financial issues shall be signed by the Chief Financial Officer or the equivalent of BST, BellSouth Carrier Professional Services (BCPS), and each Section 272 affiliate. The letters shall include the following:

a. statement that BCPS and any Section 272 affiliate maintain separate books, records, and accounts from those of BST and that such separate books, records, and accounts are maintained in accordance with GAAP;

b. statement that neither BCPS nor any Section 272 affiliate has obtained credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the BellSouth Telecommunications, Inc.;

c. statement that management has identified to the practitioner all assets transferred or sold and services rendered: (i) by BST to BCPS and/or any Section 272 affiliate; and (ii) by BCPS and/or any Section 272 affiliate to BST; and that these transactions have been accounted for in the required manner;

d. statement that BST has charged BCPS and any Section 272 affiliate, or imputed to itself (if using the access for its provision of its own services), an amount for access to its telephone exchange service and exchange access that is no less than the amount charged to any unaffiliated interexchange carriers for such service (on the BST representation letter only);

e. statement that, if BST and an affiliate subject to Section 251(c) of the Act make available and/or have provided any interLATA facilities or services to its interLATA affiliate, such facilities or services are made available to all carriers at the same rates and on the same terms and conditions, and the associated costs are appropriately allocated (on the BST representation letter only);

f. statement that management has not changed any of the BST processes or procedures (as they relate to transactions of any kind with BCPS and/or the Section 272 affiliate) and that these processes and procedures have continued to be implemented on a consistent basis, since the execution of these agreed-upon procedures without apprising the practitioner, before the date of the draft report (on the BST representation letter only).

24. The representation letter related to the disclosure of all Section 272 affiliates shall be signed by the Chief Financial Officer of BellSouth Corporation and shall state that each Section 272 affiliate has been identified, accounted for in the required manner, and disclosed in the required manner.

### **Engagement Process**

25. The General Standard Procedures, which were drafted through the cooperative efforts of Federal and State Regulators and various industry groups, are intended to provide general areas of audit work coverage and uniformity of audit work among all regions, to the extent possible, considering state regulatory and corporate differences. The standards identified throughout this document are not legal interpretations of any rules or regulations. To the extent that these standards conflict with any FCC rules and regulations, the FCC rules and regulations govern. Accordingly, by agreeing to these procedures, neither the FCC nor BellSouth Corporation, or any of its affiliates, concede any legal issue or waive any right to raise any legal issue concerning the matters addressed in these procedures.

26. The General Standard Procedures shall be used by BST as a guide for drafting the preliminary audit requirements, including the proposed scope of the audit, as prescribed in Section 53.211(a) and (b) of the Commission's rules. Under these rules, BST shall submit the preliminary audit requirements, including the proposed scope and extent of testing, to the Oversight Team before engaging an independent accounting firm to conduct the Biennial Audit. The Oversight Team shall then have 30 days to review the preliminary audit requirements to determine whether they are adequate to meet the audit requirements in Section 53.209 of the Commission's rules and "determine any modifications that shall be incorporated into the final audit requirements" (Section 53.211(b)). The preliminary audit requirements and scope of the audit shall be similar to the General Standard Procedures and shall cover all the areas described in that model. BST shall not engage any practitioner who has been instrumental during the past two years in designing any of the systems under review in the Biennial Audit. After BST has engaged a practitioner to perform the Biennial Audit, the process for drafting detailed procedures shall proceed as follows:

- The Oversight Team and the practitioner shall perform a joint survey of the Section 272 affiliate and BST. The Oversight Team and the practitioner shall coordinate with BST to determine the nature, timing and extent of this survey at a mutually agreeable time and location. The survey shall provide the practitioner and the Oversight Team with an overview of the company's structure and policies and procedures such as record keeping processes, the extent of affiliate transactions, and BST procedures for processing orders for services received from affiliates, unaffiliated entities, and its own end-user customers.



The survey shall be conducted by March 31, 2003.

- The practitioner shall develop a detailed audit program based on the final audit requirements and submit it for review to the Oversight Team (Section 53.211(d)).
- The Oversight Team shall have 30 days to review the detailed procedures for consistency and adequacy of audit coverage and shall provide to the practitioner any modifications that shall be incorporated into the final audit program (Section 53.211(d)). These modifications will be subject to the procedures described in paragraph 3 above.

27. Access to all information during the section 272(d) biennial audit shall be restricted to: (a) FCC staff members; (b) state commission staff members where the state commission by statute protects company proprietary data; (c) state commission staff members who have signed a protective agreement with BST; (d) state commission staff members of any participating state that has confidentiality procedures in effect covering all staff and that requires the Chairman or designee to sign the protective agreement on behalf of the entire commission including commission staff; and (e) state commission staff members who have not signed the protective agreement, but to whom BST does not object providing oral or written information, provided that they do not take possession of such information.

28. The detailed examination of transactions shall begin at such time as the practitioner deems appropriate to complete the engagement in accordance with the time schedule set forth in Section 53.211 and Section 53.213 of the Commission's rules.

29. During the conduct of this engagement, and until issuance of the final report to the Commissions, the practitioner shall schedule monthly meetings with the Oversight Team and, at the discretion of the practitioner and the Oversight Team, with BST, to discuss the progress of the engagement. The practitioner shall inform the Oversight Team well in advance, but in not less than 10 days, of plans to meet with representatives of BST or the following reasons: to discuss plans and procedures for the engagement; to survey BST operations; to review BST procedures for maintaining books, records, and accounts; and to discuss problems encountered during the engagement. It shall not be necessary for the practitioner to inform the Oversight Team of meetings with the client to ask for clarification or explanation of certain items, explore what other records exist, or request data. The practitioner shall immediately inform in writing the Oversight Team of any deviation from, or revisions to, the final detailed audit procedures and provide explanations for such actions. The practitioner shall submit to the Chief, Enforcement Bureau, and shall copy the Oversight Team and, at the practitioner's discretion, BellSouth Telecommunications, Inc., any rule interpretation necessary to complete the engagement. The practitioner shall advise the Oversight Team of the need for additional time to complete the engagement in the event that the Oversight Team requests additional procedures (see 30c. below). Finally, the practitioner shall immediately inform the Oversight Team, in writing, of any failure by BST or BellSouth Long Distance, Inc. to respond to requests for information during the engagement.

## **Timetables**

30. In order to complete the engagement in a timely manner, the following time schedule for completion of certain tasks is provided:

- a. Within 60 days after the end of the engagement period, but prior to discussing the findings with BST, the practitioner shall submit a draft of the report to the Oversight Team.
- b. The Oversight Team shall have 45 days to review the findings and working papers and offer its recommendations, comments, and exceptions concerning the conduct of the engagement to the practitioner. The exceptions of the Oversight Team to the findings of the practitioner that remain unresolved shall be included in the final report.
- c. If the Oversight Team requests additional procedures, the practitioner shall advise the Oversight Team and BST of any need for additional time to perform such procedures. Otherwise, within 15 days after receiving the Oversight Team's recommendations and making the appropriate revisions, the practitioner shall submit the report to BST for its comments on the findings, and to the Oversight Team. At the time the report is provided to BST, the practitioner may provide BST with an itemized list of all data and information identified as proprietary or confidential that the practitioner included in the report.
- d. Within 30 days after receiving the report, BST will comment on the findings and send a copy of its comments to both the practitioner and the Oversight Team. BST will also provide the practitioner and the Oversight Team notification of all items contained in the draft report, which BST contends to be confidential. BST's response shall be included as part of the final report.
- e. Within 10 days after receiving BST comments, the practitioner may respond to BST's comments and shall make available for public inspection the final report by filing it with the regulatory agencies having jurisdiction over BST. The final report shall contain the procedures employed with the related findings, the Oversight Team's comments, BST's comments, the practitioner's reply comments, and a copy of these procedures as executed.
- f. Interested parties shall have 60 days from the date the report is made available for public inspection to file comments with the Commission and/or any state regulatory agency.

## Report Structure

31. Consistent with the AICPA standards for AUP engagements, the practitioner must present the results of performing the audit procedures in the form of findings, including dollar amounts, resulting from application of the audit procedures. The practitioner must avoid vague or ambiguous language in reporting the findings, and shall describe in the final report all instances of noncompliance with Section 272 or its related implementing rules that were noted by the practitioner in the course of the engagement, or were disclosed by BST during the engagement, by any means. Where samples are used to test data, the report shall identify the size of the universe from which the samples were drawn, the size of the sample, the sampling methodology used and, where appropriate, the standard deviation and mean. The final report shall contain the procedures employed with the related findings, the Oversight Team's comments, BST's comments, the practitioner's reply comments, and a copy of these procedures as executed. The practitioner's report must also contain the following elements:

- a. A title that includes the word independent.
- b. Identification of the specified parties.
- c. Identification of the subject matter (or the written assertion related thereto) and the character of the engagement.
- d. Identification of BST as the responsible party.
- e. A statement that the subject matter is the responsibility of the responsible party.
- f. A statement that the procedures performed were those agreed to by the specified parties identified in the report or were directed by the Bureau or the Commission, as specified in paragraph 3.
- g. A statement that the agreed-upon procedures engagement was conducted in accordance with attestation standards established by the AICPA
- h. A statement that the sufficiency of the procedures is solely the responsibility of the specified parties and a disclaimer of responsibility for the sufficiency of those procedures.
- i. A list of the procedures performed (or reference thereto) and related findings.
- j. A statement that the practitioner was not engaged to and did not conduct an examination of the subject matter, the objective of which would be the expression of an opinion, a disclaimer of opinion on the subject matter,

and a statement that if the practitioner had performed additional procedures, other matters might have come to his or her attention that would have been reported.

- k. This report becomes a matter of public record via the practitioner's filing the final report with the FCC and the state regulatory agencies having jurisdiction over BST.
- l. A description of any limitations imposed on the practitioner by BST or any other affiliate, or other circumstances that might affect the practitioner's findings.
- m. A description of the nature of the assistance provided by specialists and internal auditors.

**BELLSOUTH TELECOMMUNICATIONS, INC.  
BIENNIAL ENGAGEMENT PROCEDURES**

**Procedures for Structural Requirements**

**OBJECTIVE I. Determine whether the separate affiliate required under Section 272 of the Act has operated independently of the Bell Operating Company (BOC).**

**STANDARDS**

The FCC has issued rules and regulations in CC No. Docket 96-149, Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended. Some of those rules require that,

- A BOC and its Section 272 affiliate cannot jointly own transmission and switching facilities, broadly defined as local exchange and exchange access facilities, or the land and buildings where those facilities are located. (See 47 C.F.R. Section 53.203(a)(1) and First Report and Order, paras. 15, 158, 160)
- A Section 272 affiliate shall not perform operating, installation or maintenance functions associated with the BOC's facilities. Likewise, a BOC or any BOC affiliate, other than the Section 272 affiliate itself, shall not perform operating, installation or maintenance functions associated with the facilities that each Section 272 affiliate owns or leases from a provider other than the BOC with which it is affiliated. (See 47 C.F.R. Section 53.203(a)(2), (3) and First Report and Order, paras. 15, 158, 163)
- To the extent that research and development is a part of manufacturing, it must be conducted through a Section 272 affiliate. If a BOC seeks to develop services for or with its Section 272 affiliate, the BOC must develop services on a nondiscriminatory basis for or with other entities pursuant to Section 272(c)(1). (See First Report and Order, para. 169)

**PROCEDURES**

1. Obtain and inspect the certificate of incorporation, bylaws, and articles of incorporation of the Section 272 affiliate to determine whether the Section 272 affiliate was established as a corporation separate from BST. Note in the report the results of this procedure.
2. Obtain and inspect corporate entities' organizational chart(s) and confirm the legal, reporting, and operational corporate structure of the Section 272 affiliate with legal representatives of BST, the Section 272 affiliate, and BellSouth Corporation, as appropriate. Disclose these facts in the report. Document and disclose in the report who owns the Section 272 affiliate.

3. Inquire of management, identify, and document which entities perform operations, installation, and maintenance (OI&M) functions over facilities either owned by the Section 272 affiliate, or leased from a third party by the Section 272 affiliate.
  - a. Obtain management's definition and interpretation of operations, installation, and maintenance (OI&M) functions. Describe in the report management's definition of OI&M.
  - b. Disclose in the report whether or not any of these OI&M services described above in step (a) are being performed by BST, and/or other affiliate(s) on facilities either owned by the Section 272 affiliate or leased from a third party by the Section 272 affiliate. For each such service being performed by BST or other affiliate(s), disclose in the report what service is being performed by what entity.
  - c. Disclose in the report whether or not any of these OI&M services described above in step (a) are being performed by the Section 272 affiliate on facilities either owned by BST or leased from a third party by BST. Disclose in the report each such service being performed by the Section 272 affiliate.
4. Obtain a description of all services rendered by BellSouth Carrier Professional Services (BCPS) to the Section 272 affiliate. For each service, determine whether it is made available to third parties. If so, determine how the service is made available, e.g., by Internet posting, sales campaign, etc. Include in the report a list of services provided by BCPS to the Section 272 affiliate, showing whether and how each service is made available to third parties. Also obtain and document in the report the amount that BCPS charged the Section 272 affiliate during the engagement period for each service provided.
5. Through inquiry of management, determine whether BST performs any R&D (Research and Development) activities on behalf of the Section 272 affiliate. If yes, obtain descriptions of R&D activities performed by BST for the period from June 1, 2002 through February 28, 2003 and note any R&D related to the activities of the Section 272 affiliate. For R&D related to the activities of the Section 272 affiliate, request from BST personnel more details, such as the extent of R&D provided, progress reports, cost, and whether the Section 272 affiliate has been billed and has paid for this service. Disclose in the report all information obtained. Inquire and disclose in the report whether or not R&D service is offered and/or has been performed when requested by unaffiliated entities.
6. Obtain as of the end of February 2003 the balance sheet of the Section 272 affiliate and a detailed listing of all its fixed assets, including capitalized software. The total amount for fixed assets on the balance sheet should agree with the total amount on the fixed assets list. If the list does not agree with the balance sheet, inquire and document why. Disclose in the report by what amount the assets in the Balance Sheet are more than, or less than, as appropriate, the total amount of the assets on the detailed listing. Identify in the report the types of assets involved in these differences and provide explanations. Verify that the

detailed listing includes a description and location of each item, date of purchase, price paid, price recorded, and from whom purchased or transferred. Disclose in the report any item for which any of this information is missing, including dollar amounts. Inspect title and/or other documents, which reveal ownership, of a statistically valid sample of transmission and switching facilities, including capitalized software, and the land and buildings where those facilities are located. If any of these documents are not made available, disclose this fact in the report. Look for and make a note of any facilities that are owned jointly with BST and disclose in the report. The balance sheet information obtained in this procedure should also be used to perform Procedure 8 under Objectives V and VI.

**OBJECTIVE II.** Determine whether the separate affiliate required under Section 272 of the Act has maintained books, records, and accounts in the manner prescribed by the Commission that are separate from the books, records, and accounts maintained by the Bell Operating Company (BOC).

### **STANDARDS**

In CC Docket No. 96-150, Implementation of the Accounting Safeguards Under the Telecommunications Act of 1996, the FCC requires that each Section 272 affiliate maintain books, records, and accounts, in accordance with generally accepted accounting principles (GAAP), and separate from those of the BOC. (See Report and Order, para. 170)

### **PROCEDURES**

1. Obtain the general ledger (G/L) for the Section 272 affiliate as of February 28, 2003 and match the title on the G/L with the name of the affiliate on the certificate of incorporation to determine that a separate G/L is maintained. Look for special codes, if any, which may link this G/L to the G/L of BST and provide documentation. State in the report whether or not a separate G/L is maintained, and if not, explain why. Note: Linkage at corporate headquarters for consolidations is an accepted practice.
2. Obtain the Section 272 affiliate's financial statements and lease agreements as of February 28, 2003. Identify leases for which the annual obligation listed in the lease agreement is \$500,000 or more. Test those leases for which the Section 272 affiliate is the lessor as well as those leases for which the Section 272 affiliate is the lessee. For a statistically valid sample of leases, make a note of the terms and conditions to determine whether these leases have been accounted for in accordance with GAAP. Determine whether client lease accounting policies are in accordance with GAAP. Disclose in the report any instance where these leases were not accounted for in accordance with GAAP.



**OBJECTIVE III.** Determine whether the separate affiliate required under Section 272 of the Act has officers, directors, and employees that are separate from those of the Bell Operating Company (BOC).

**STANDARDS**

The FCC in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended, interprets the above requirement further by stating the following:

Separate officers, directors, and employees simply dictates that the same person may not simultaneously serve as an officer, director, or employee of both a BOC and its Section 272 affiliate. (See First Report and Order, para. 178.)

**PROCEDURES**

1. Inquire, document and disclose in the report whether each Section 272 affiliate maintains a separate board of directors, separate officers, and separate employees from BST. For BST and the Section 272 affiliate, obtain a list of the names of directors and officers, including the dates of service for each Board member and officer for the engagement period (June 1, 2002 to May 23, 2003). Compare the list showing names of directors and officers for BST with a list showing names of directors and officers for the Section 272 affiliate. For those names appearing on both lists, obtain explanations from management and request social security numbers and addresses to ensure that they are not the same individuals. Disclose in the report the number of directors and officers who, having the same social security number and address, served simultaneously as a director/officer of BST and as director/officer of the Section 272 affiliate.
2. Obtain from the respective Human Resource Departments of the Section 272 affiliate and BST a list of names and social security numbers of all employees from June 1, 2002 through February 28, 2003. Design and execute a program that compares the names and social security numbers of employees at both entities, and document in the workpapers the names appearing on both lists. For any employee appearing on both lists simultaneously, inquire and document the reason in the report.

**OBJECTIVE IV.** Determine that the separate affiliate required under Section 272 of the Act has not obtained credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the Bell Operating Company (BOC).

### **STANDARDS**

The FCC in 47 C.F.R. Section 53.203(d) indicates that a Section 272 affiliate shall not obtain credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the BOC of which it is an affiliate.

The FCC also expands on this premise in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended. In this docket the Commission states that,

- A BOC cannot co-sign a contract or any other instrument with a Section 272 affiliate that would allow such Section 272 affiliate to obtain credit granting recourse to the BOC's assets. (See First Report and Order, para. 189)
- The BOC parent, or any other non-272 affiliate, cannot sign or co-sign a contract or enter into any arrangement with a Section 272 affiliate that would allow the creditor to have recourse to the BOC assets. (See First Report and Order, para. 189)
- A Section 272 affiliate cannot enter into any arrangement with any party that would permit the lender to have recourse to the BOC in the event of a default. (See First Report and Order, para. 189)

### **PROCEDURES**

1. Obtain from management and document in the workpapers the Section 272 affiliate's debt agreements/instruments and credit arrangements with lenders and major suppliers of goods and services. Look for guarantees of recourse to BST's assets either directly or indirectly through another affiliate. Document any instances and disclose them in the report. Major suppliers are those having \$500,000 or more in annual sales as stated in the agreement, or having \$375,000 in sales during the test period (June 1, 2002 through February 28, 2003) to the Section 272 affiliate.
2. Using the lease agreements obtained in Objective II, Procedure 2, document any instances in which the Section 272 affiliate's lease agreements (where the annual obligation is \$500,000 or more as stated in the agreement) have recourse to the assets of BST, either directly or indirectly through another affiliate. Disclose any instances in the report.

3. For all debt instruments, leases, and credit arrangements maintained by the Section 272 affiliate in excess of \$500,000 of annual obligations, and for a judgmental sample of 10 debt instruments, leases and credit arrangements that are less than \$500,000 in annual obligations, obtain (positive) confirmations from loan institutions, major suppliers, and lessors to attest to the lack of recourse to BST assets. Disclose in the report any recourse noted.

## **Procedures for Accounting Requirements**

**OBJECTIVE V.** Determine whether the separate affiliate required under Section 272 of the Act has conducted all transactions with the Bell Operating Company (BOC) on an arm's length basis with the transactions reduced to writing and available for public inspection.

**OBJECTIVE VI.** Determine whether or not the Bell Operating Company (BOC) has accounted for all transactions with the separate affiliate in accordance with the accounting principles and rules approved by the Commission.

## **STANDARDS**

The FCC in CC Docket 96-150, Implementation of the Accounting Safeguards Under the Telecommunications Act of 1996, interprets the above requirements further by stating:

- A Section 272 affiliate shall conduct all transactions with the BOC of which it is an affiliate on an arm's length basis, pursuant to the accounting rules described in 47 C.F.R. Section 32.27, Transactions with Affiliates, of the FCC Rules and Regulations, with any such transactions reduced to writing and available for public inspection. (See 47 C.F.R. Section 53.203[e]). Section 32.27 requires the following:

**For transactions involving the sale or transfer of assets or products between the carrier and affiliates:**

- a. assets sold to or by the carrier under tariff must be recorded at tariffed rate in the books of the carrier;
- b. nontariffed assets sold to or by the carrier that qualify for prevailing price must be recorded at prevailing price in the books of the carrier. In order to qualify for prevailing price valuation, sales of a particular asset must encompass greater than 50% (25% permissible since January 1, 2002) of the total quantity of such product sold by an entity; the 50% (25% permissible since January 1, 2002) threshold is applied on an asset-by-asset basis rather than on a product line basis;
- c. all other assets sold by or transferred from a carrier to affiliates must be recorded in the books of the carrier at no less than the higher of fair market value or net book cost; (Note: carriers are required to make a good faith estimate of fair market value.)
- d. all other assets purchased by or transferred to a carrier from affiliates must be recorded in the books of the carrier at no more than the lower of fair market value or net book cost;

*Exception:* Threshold. Carriers are required to make a good faith determination of fair market value for an asset when the total aggregate annual value of the asset(s) reaches or exceeds \$500,000, per affiliate. When a carrier reaches or exceeds the \$500,000 threshold for a particular asset for the first time, the carrier must perform the market valuation and value the transaction on a going-forward basis in accordance with the affiliate transactions rules. When the total aggregate annual value of the asset(s) does not reach or exceeds \$500,000, the asset(s) shall be recorded at net book cost.

**For transactions involving the provision of services between the carrier and affiliates:**

- a. services provided to or by the carrier at tariff must be recorded at tariffed rate in the books of the carrier;
- b. nontariffed services provided to or by the carrier pursuant to publicly filed agreements submitted to a state commission must be recorded in the books of the carrier at the rate appearing in publicly filed agreements
- c. nontariffed services provided to or by the carrier that qualify for prevailing price must be recorded in the books of the carrier at prevailing price. In order to qualify for prevailing price valuation, sales of a particular service must encompass greater than 50% (25% permissible since January 1, 2002) of the total quantity of such service sold by an entity; the 50% (25% permissible since January 1, 2002) threshold is applied on a service-by-service basis rather than on a service line basis;
- d. all other services provided to a carrier by an affiliate must be recorded in the books of the carrier at no more than the lower of fair market value or fully distributed cost.
- e. all other services provided by the carrier to an affiliate must be recorded in the books of the carrier at no less than the higher of fair market value or fully distributed cost.

*Exception:* Threshold. Carriers are required to make a good faith determination of fair market value for a service when the total aggregate annual value of that service reaches or exceeds \$500,000, per affiliate. When a carrier reaches or exceeds the \$500,000 threshold for a particular service for the first time, the carrier must perform the market valuation and value the transaction on a going-forward basis in accordance with the affiliate transactions rules. When the total aggregate annual value of the service does not reach or exceeds \$500,000, the service shall be recorded at fully distributed cost.

f. Fully distributed cost is determined by following the standards contained in 47 C.F.R. Section 64.901, Allocation of Costs, of the FCC Rules and Regulations. These rules emphasize direct assignment and cost causation. First, costs are to be directly assigned either to regulated or nonregulated activities to the maximum extent possible. Then, costs, which cannot be directly assigned, are to be grouped into homogeneous cost pools and allocated in accordance with direct or indirect measures of cost causation. Residual costs, which cannot be apportioned on any cost-causative basis, will be apportioned using the general allocator. The general allocator is the ratio of all expenses directly assigned or attributed to nonregulated activities, to the total of all (regulated and nonregulated) directly assigned or attributed expenses.

- A BOC and a Section 272 affiliate may provide in-house services to one another, except for operating, installation, or maintenance services. These in-house services, however, must be provided on an arm's length basis, and must be in writing. (See CC Docket No. 96-149, First Report and Order, para 180)
- Provision of exchange and exchange access services and unbundled network elements constitute transactions requiring disclosure (See CC Docket No. 96-150, Report and Order, para. 124). These transactions include the provision of transmission and switching facilities by the BOC and its affiliate to one another. (See CC Docket No. 96-149, First Report and Order, para. 193)
- The separate affiliate must provide a detailed written description of the asset transferred or service provided, together with the specific price, frequency, and the terms and conditions of the transaction on the Internet within 10 days of the transaction through the company's home page. (Note: a transaction is deemed to have occurred once the BOC and its affiliate have agreed upon the terms and conditions of the transaction, not when the service is actually performed or the asset actually sold.) These descriptions should be sufficiently detailed to allow evaluation of compliance with accounting rules. This information must also be made available for public inspection at the principal place of business of the BOC and must contain a certification statement identical to that included in the ARMIS Reports. This certification statement declares that an officer of the BOC has represented that to the best of his knowledge all statements of fact contained in the submission are true and the submission is an accurate statement of the affairs of the BOC for the relevant period. (See CC Docket No. 96-150, Report and Order, para. 122)
- Affiliate transaction rules apply to transactions between the BOC and each Section 272 affiliate; between each Section 272 affiliate and a nonregulated affiliate, that ultimately result in an asset or service being provided to the BOC, i.e., chained transactions. (See CC Docket No. 96-150, Report and Order, para. 183)

- Products and services made available to the Section 272 affiliate and to unaffiliated companies need not meet the 50 % threshold (25 % permissible threshold since January 1, 2002) for a BOC to record the transaction involving such products and services at prevailing price. (See CC Docket No. 96-150, Report and Order, para. 137; CC Docket No. 00-199, Report and Order, Appendix F, Section 32.27)
- Nondiscrimination requirements extend to any good, service, facility, or information that a BOC provides to its Section 272 affiliate(s) with the exception of joint marketing, which is covered in Section 272(g) of the Act. Unaffiliated entities must have equal opportunity to acquire any such goods, service, facility, or information. In particular, if a BOC were to decide to transfer ownership of a unique facility, such as its Official Services network, to a Section 272 affiliate, it must ensure that the Section 272 affiliate and unaffiliated entities have an equal opportunity to obtain ownership of this facility. (See CC Docket No 96-149, First Report and Order, para. 218)
- Interstate rate base, revenue requirements, and price cap indices of the BOC must be reduced by the costs related to any regulated facilities transferred to each Section 272 affiliate. (See CC Docket No. 96-150, Report and Order, para. 265)

## **PROCEDURES**

1. Describe in the report and document in the working papers the procedures used by BST to identify, track, respond, and take corrective action on competitors' complaints with respect to alleged violations of the Section 272 requirements. Obtain from BST a list of all FCC formal complaints, as defined in 47 CFR 1.720; FCC informal complaints, as defined in 47 CFR 1.716; and any written complaints made to a state regulatory commission from competitors either involving the provision or procurement of goods, services, facilities, and information, or involving the establishment of standards which were filed during the engagement period (May 24, 2002 through May 23, 2003). The list should group the complaints in the following categories:
  - allegations of cross-subsidies (for Objectives V and VI);
  - allegations of discriminatory provision or procurement of goods, services, facilities, and customer network services information (excludes customer proprietary network information (CPNI)); or the establishment of standards (for Objective VII);
  - allegations of discriminatory processing of orders for, and provisioning for, exchange access, exchange services, and unbundled network element; and discriminatory resolution of network problems (for Objective VIII);

- allegations of discriminatory availability of exchange access facilities (for Objective IX);
- allegations of discriminatory availability of interLATA facilities or services not at the same rates and not on the same terms and conditions as the interLATA affiliate (for Objective XI).

For each group, determine by inquiry and review of documentation how many of the complaints were under investigation, how many complaints had been resolved, and in what time frame they had been resolved, if feasible. Disclose this information in the report. For those complaints that had been resolved, document and disclose in the report how those allegations were concluded. If the complaint was upheld, inquire, document and disclose in the report what steps the company has taken to prevent those practices from recurring.

Note: Although applicable to complaints pertaining to Objective V/VI, VII, VIII, IX and XI, this procedure appears only once and will be performed and reported only once for Objectives V/VI, VII, VIII, IX and XI.

2. Obtain from BST and the Section 272 affiliate, current written procedures for transactions with affiliates. Compare these procedures with the FCC rules and regulations indicated as "standards" above. Note and describe any differences and disclose them in the report.
3. Inquire and describe how BST and the Section 272 affiliate disseminate the FCC regulations and raise awareness among employees for compliance with the affiliate transactions rules. For this purpose, describe in the report the type and frequency of any training, any literature distributed, and any company policies. Document in the report any supervision received by employees responsible for affiliate transactions. Interview employees responsible for the development and recording of affiliate transactions costs in the books of record of the carrier to determine awareness of these rules. Disclose in the report whether these employees demonstrated knowledge of these rules.
4. Obtain a listing of all written agreements, including any corresponding amendments, for services and for interLATA and exchange access facilities between BST and the Section 272 affiliate which were in effect during the period from June 1, 2002 through February 28, 2003. For a statistically valid sample, obtain copies of written agreements and summarize them if feasible. Otherwise, include copies of relevant pages and note names of parties, type of service, price, terms, and conditions. Note which agreements are still in effect at the end of the engagement period (May 23, 2003). For those agreements no longer in effect, indicate the termination date. Identify agreements terminated prematurely, document why and disclose the information in the report. Inquire and document and disclose in the report the provisioning of any service without a written agreement.



5. Using the sample of the agreements obtained in procedure 4, view the BellSouth Corporate web site on the Internet and compare the prices, terms and conditions of services and assets shown on this site to the actual agreements provided in Procedure 4 above. Disclose in the report any instance where any item in the agreement does not agree with the corresponding item on the Internet. Using the above sample determine by physical inspection, whether the same information is made available for public inspection at the principal place of business, i.e. the headquarters of BST. Describe any differences, inquire why they exist and disclose them in the report. If the company makes any claim of confidentiality for nondisclosure, obtain details. It should be noted that these transactions should be posted for public inspection within 10 days of their occurrence. Document in the working papers the dates when the agreements in the sample were signed and/or when the services were first rendered (whichever took place first), and note when the dates were first posted on the Internet. Inquire about and note late postings in the report. When posting took place later than 10 days after signing of agreement or provision of service (whichever took place first), indicate reason. Document in the working papers the procedures the company has in place for posting these transactions on a timely basis. The information provided on the Internet should be in sufficient detail to allow evaluation for compliance with accounting rules (see Docket No. 96-150, Report and Order, para. 122). For example, such disclosures should include a description of the rates, terms, and conditions of all transactions, as well as the frequency of recurring transactions and the approximate date of completed transactions. For asset transfers, the disclosure should include the appropriate quantity and, if relevant, the quality of the transferred assets. For affiliate transactions involving services, the disclosure should include the number and type of personnel assigned to the project, the level of expertise of such personnel (including the associated rate per service unit [e.g. contacts, hours, days, etc]), any special equipment used to provide the service, and the length of time required to complete the transaction. Additionally, the disclosure should state whether the hourly rate is a fully loaded rate, and whether or not that rate includes the cost of materials and all direct or indirect miscellaneous and overhead costs for goods and services provided at FDC. If the information disclosed on the Internet is not as sufficiently detailed as described above, document and describe in the report any differences and find out why such differences exist. (See Docket No. 98-121, Memorandum Opinion and Order, para. 337.) Obtain copies of public postings and include them in the working papers.
6. Obtain a listing and amounts of all services rendered by month by BST to the Section 272 affiliate during the period from June 1, 2002 through February 28, 2003. Determine which of these services are made available to the Section 272 affiliate and not made available to third parties, and which services are made available to both the Section 272 affiliate and to third parties.
  - a. From the services not made available to third parties, select a statistically valid sample, and determine whether or not the amounts recorded for the sampled services in the books of BST are in accordance with the affiliate transactions rules of the Commission. Compare unit charges to Prevailing Market Price (PMP), Fully Distributed Cost (FDC), or Fair Market Value (FMV) as appropriate. When differences exist, note in

the report the number of instances and related amounts, and, after inquiry, document in the report the reasons for these occurrences. Disclose in the report any differences between the amount the Section 272 affiliate has recorded for these services in its books of account and the amount the Section 272 affiliate has paid for the same services to BST.

b. From the services made available to both the Section 272 affiliate and to third parties, select a statistically valid sample and compare the amounts recorded for the sampled services in the books of BST with the amounts recorded for the sampled services in the books of the Section 272 affiliate, and with the amounts the Section 272 affiliate has paid to BST for the sampled services. When differences exist, note in the report the number of instances and related amounts, and, after inquiry, document in the report the reasons for these occurrences. Disclose in the report any difference between the amount recorded in the books of BST and the amount the Section 272 affiliate has paid to BST for the same services. Also disclose in the report any difference between the amount recorded in the books of the Section 272 affiliate and the amount the Section 272 affiliate has paid to BST for the same services.

7. Obtain a listing, with dollar amounts, of all services rendered by month to BST by the Section 272 affiliate for the period June 1, 2002 through February 28, 2003. Using a statistically valid sample, compare unit charges to tariff rates, PMP, FDC, or FMV, as appropriate, to determine whether these services were recorded in the books of BST in accordance with the affiliate transactions rules. When differences exist, note in the report the number of instances and the amounts involved. Inquire and make a note of the reasons for these occurrences in the report. Disclose in the report the differences between the amount BST has recorded for the services in its books of account and the amount BST has paid for the same services to the Section 272 affiliate.
8. Obtain as of February 28, 2003 the balance sheet of the Section 272 affiliate and a detailed listing of all fixed assets. The total figure for fixed assets on the Section 272 affiliate's balance sheet should agree with the total figure on the fixed assets listing. If the figures do not agree, inquire, document why, and disclose in the report by what amount the assets in the Balance Sheet are more than or less than the total amount of the assets on the detailed listing. Identify in the report the types of assets involved in these differences and provide explanations. This detailed listing should include a full description of each item, location, date of purchase, price paid and recorded, and from whom purchased or transferred. The balance sheet information obtained in this procedure should also be used to perform Procedure 5 under Objective I. For items added since February 8, 1996, perform the following steps:
  - a. For those items purchased or transferred from BST obtain net book cost and fair market value. Inquire and document in the report how the fair market value was determined. Inspect these transactions to determine whether they were recorded in the books of BST at the higher of FMV or net book cost, as required by the Commission's rules in Section 32.27 and disclose in the report.

- b. For those items purchased or transferred from another affiliate, identify and document in the report whether they were originally transferred from BST to other affiliates.
  - c. For those items purchased or transferred from BST, either directly or through another affiliate, since February 8, 1996, inquire and obtain details of how BST provided equal opportunity for unaffiliated entities to obtain ownership of them. Disclose the results in the report. Describe and disclose in the report how and upon what basis BST decided to transfer/sell the facilities to a Section 272 affiliate instead of an unaffiliated entity.
9. Select a statistically valid sample of assets and/or services priced pursuant to Section 252(e) (e.g., as approved by the regulatory commissions) or statements of generally available terms pursuant to Section 252(f). Compare the price BST charges the Section 272 affiliate with the price stated in the publicly filed agreements or statements. Document any differences in the report.
10. Inquire and obtain details about whether BST sold or transferred any part of its Official Services network to the Section 272 affiliate at any time. For any transfer or sale of assets on or after February 8, 1996, in addition to the requirements for Procedure 8, inquire and obtain details of how BST provided equal opportunity for unaffiliated entities to obtain ownership of the facilities. Describe how and upon what basis BST decided to transfer/sell the facilities to the Section 272 affiliate instead of an unaffiliated entity. Disclose all of the above facts in the report.

## **Procedures for Nondiscrimination Requirements**

**OBJECTIVE VII.** Determine whether or not the Bell Operating Company (BOC) has discriminated between the separate affiliate and any other entity in the provision or procurement of goods, services, facilities and information, or in the establishment of standards.

### **STANDARDS**

The FCC in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended, establishes some non-discriminatory rules and regulations. These rules and regulations do not permit a Bell operating company (BOC) to discriminate in the following manner:

- by giving preference to a Section 272 affiliate's equipment in the procurement process. (See First Report and Order, para. 16)
- in awarding contracts for telecommunications equipment directly to their affiliate in a manner that violates Section 273(e)(1) or 273(e)(2). (See First Report and Order, para. 234)
- by failing to provide advance information about network changes to its competitors. (See First Report and Order, para. 16)
- by not offering third parties the same goods, services, facilities and information (excludes customer proprietary network information (CPNI) and joint marketing) that it provides to its Section 272 affiliate at the same rates, terms, and conditions. (See First Report and Order, para. 202 and 218)

### **NOTES:**

- (i) BOCs are not required under the nondiscrimination rules and regulations to provide to third parties Customer Proprietary Network Information (CPNI) that is shared with affiliates (see *Second Report and Order*, CC Docket No. 96-115, Released February 26, 1998, para. 169). The provision of "information" referenced in the nondiscriminatory rules and regulations excludes CPNI. CPNI is defined in Section 222(f)(1) of the Act and includes information that is personal to customers as well as commercially valuable to carriers, such as to whom, where and when a customer places a call, as well as the types of service offerings to which the customer subscribes and the extent the service is used.
- (ii) BOCs are allowed to jointly market and sell affiliate-provided interLATA services without offering comparable joint marketing opportunities to other

providers of interLATA services (see Section 272(g)(2) of the Act, and CC Docket No. 96-149, First Report and Order, Paragraphs 291-292). However, if BOCs market or sell their telephone exchange services through joint marketing conducted by the Section 272 affiliate, then the BOCs must also permit third parties to market and sell its telephone exchange services (see Section 272(g)(1) of the Act).

- in establishing or adopting any standards that favor its Section 272 affiliate(s) over third parties. (See First Report and Order, para. 208 and 229)
- in developing new services solely for its Section 272 affiliate(s). (See First Report and Order, para. 210)
- in purposely delaying the implementation of an innovative new service by denying a competitor's reasonable request for interstate exchange access until its Section 272 affiliate was ready to provide competing service. (See First Report and Order, para. 211)
- in marketing its affiliate's interLATA services to inbound callers without informing them of their right to select the interLATA carrier of their choice. (See First Report and Order, para. 292)

**NOTE:**

A BOC's obligation to inform callers of their long distance choices is limited to customers who order *new* local exchange service. A caller orders "new service" when the customer either receives service from the BOC for the first time, or moves to another location within the BOC's in-region territory. (*See In the Matter of AT&T Corp., Complainant, v. New York Telephone Company, d/b/a Bell Atlantic – New York, Defendant*, Memorandum Opinion and Order, File No. EB-00-MD-011; FCC 00-362; at ¶¶ 13-15.)

In addition, a Section 272 affiliate may not market or sell information services and BOC telephone exchange services together, unless the BOC permits other information service providers to market and sell telephone exchange services. (See First Report and Order, para. 287)

**PROCEDURES**

1. Obtain and inspect BST's procurement awards to the Section 272 affiliate during the period June 1, 2002 through February 28, 2003. Inspect bids submitted by the Section 272 affiliate and by third parties. Note terms, discuss with BST representatives how the selection was made, and disclose this information in the report. Compare this practice with BST written procurement procedures and note any differences. Disclose in the report all differences between the terms of bids submitted by the Section 272 affiliate and the terms of bids submitted by third parties.

2. Obtain a list of all goods (including software), services, facilities, and customer network services information, (excluding CPNI as defined in Section 222(f)(1) of the Act and exchange access services and facilities [inspected in Objective IX]) made available to the Section 272 affiliate by BST. For a statistically valid sample of items from this list, inquire and obtain copies of the media used by BST to inform unaffiliated entities of the availability of the same goods, services, facilities, and information at the same price and on the same terms and conditions. Disclose in the report the results of this procedure.
3. For the period June 1, 2002 through February 28, 2003, obtain a list from BST of all unaffiliated entities who have purchased the same goods , (including software), services, facilities, and customer network services information (excludes CPNI) from BST as the Section 272 affiliate.. Describe what, if any, goods, services, facilities, and customer network services information were purchased and make note of the extent of purchases made. Select a statistically valid sample of such purchases and compare the rates, terms, and conditions of the sampled items to the rates, terms, and conditions of the items purchased by the Section 272 affiliate. Note any differences and disclose them in the report. For the sampled items, document the amount the Section 272 affiliate was billed and the amount the Section 272 affiliate paid for the same items purchased from BST. Disclose any differences in the report.
4. Document and disclose in the report how BST disseminates information about network changes, the establishment or adoption of new network standards, and the availability of new network services to the Section 272 affiliate and to unaffiliated entities. Note any differences in the report.
5. From the customer service call centers mentioned in procedure 6 below, obtain and inspect scripts that BellSouth Telecommunications, Inc.'s customer service representatives recite to customers calling, or visiting customer service centers, to establish new local telephone service or to move an existing local telephone service within the BOC in-region territory. If these scripts contain language that attempts to sell interLATA services, note and disclose in the report whether these scripts inform the consumers that there are other providers of interLATA services besides the Section 272 affiliate. Also note whether these other providers are identified to the consumers along with the interLATA service affiliates. In addition, obtain and inspect the written content of the BellSouth Corporation website for on-line ordering of new service and move service. Note and disclose in the report whether the consumers are informed that there are other providers of interLATA services and whether these providers are identified to the consumers, along with the interLATA service affiliate.
6. Obtain a listing of all BST customer service call centers.
  - a. From the complete roster, compile a listing of BST acquisition call centers that respond to inbound callers requesting to establish new local telephone service or to move an existing local telephone service. From this listing, identify whether each call center is

large business, small business or consumer. Using a random number generator, select one call center for large business, one call center for small business, and three consumer call centers. Listen in to a statistically valid number of inbound calls (100 in total: 10 large business calls, 30 small business calls, and 20 calls per consumer call center) in which BST customer service representatives attempt to market the Section 272 affiliate's interLATA service to callers requesting to establish new local telephone service or to move an existing local telephone service. If exceptions are noted while listening to any consumer call center, extend the sample to include the total population of consumer call centers, and listen in to 20 calls at each. Labor union concurrence may be needed for this procedure. Note messages conveyed while listening in. Note and disclose in the report any instances where the customer service representative steered the caller to obtain the interLATA services of the Section 272 affiliate, did not inform the caller of other providers of interLATA services, and/or did not inform the caller of his right to select the InterLATA services provider.

- b. From the complete roster of all BST customer service call centers, compile a listing of BST sales and support call centers that might incidentally respond to inbound callers requesting to establish new local telephone service or to move an existing local telephone service. Using a random number generator, select five call centers and listen in to 20 calls per center for consumers requesting to establish new BellSouth local telephone service or requesting to move an existing local telephone service within the BOC in-region territory. If any consumers call into BST sales and support call centers requesting to establish new local telephone service or to move an existing local telephone service, the practitioner should contact the Oversight Team before proceeding, unless the BST sales and support representative immediately refers the caller to a BST customer service center.
7. Obtain a listing of all BST inbound telemarketing centers in which representatives of third-party contractors might incidentally respond to inbound callers requesting to establish new local telephone service or to move existing local telephone service. Listen in to 50 calls at inbound acquisition centers and to twenty-five calls each at inbound product support and inbound product support/winback centers. If any consumers call into any BST inbound telemarketing centers requesting to establish new local telephone service or to move an existing local telephone service, the practitioner should contact the Oversight Team before proceeding, unless the third-party contractor representative immediately refers the caller to a BST customer service center.
8. Identify the controls utilized by BST and the third party contractors hired for inbound telemarketing to assure compliance by BST with Section 272. Compare BST controls with third party contractor controls and document differences in the audit report. Describe all controls in the report.
9. Obtain and review each of the contracts between BST and the third party contractors discussed in procedure 7. Document in the audit report all controls contained in the contracts relating to Section 272.

**OBJECTIVE VIII.** Determine whether or not the Bell Operating Company (BOC) and an affiliate subject to Section 251(c) of the Act have fulfilled requests from unaffiliated entities for telephone exchange service and exchange access within a period no longer than the period in which it provides such telephone exchange service and exchange access to itself or its affiliates.

### **STANDARDS**

Although the FCC in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended, reached various conclusions, a further proceeding in this matter, currently underway, will provide the implementing rules and regulations. We will revise these procedures to conform to the new rules and regulations when available so long as the new rules are adopted by the FCC, applicable to Section 272 relationships and to the extent in effect during the engagement period. The conclusions reached by the Commission provide that,

- for equivalent requests the response time a BOC provides to unaffiliated entities should be no greater than the response time it provides to itself or its affiliate. (See First Report and Order, para 240)
- a BOC must make available to unaffiliated entities information regarding the service intervals in which the BOC provides service to itself or its affiliates. (See First Report and Order, para. 242)
- a BOC must not provide a lower quality service to competing interLATA service providers than the service it provides to its Section 272 affiliate at a given price. (See First Report and Order, para. 16)

In its Section 271 applications, BST made commitments regarding compliance with Section 272(e)(1) of the Act. This included the commitment to provide the performance monitoring that will assist in confirmation of nondiscriminatory performance in BellSouth Telecommunications, Inc.'s dealings with its 272 affiliate. If the Commission adopts reporting requirements, BST will fully comply.

### **PROCEDURES**

1. Document in the working papers the practices and processes BST has in place to fulfill requests for telephone exchange service and exchange access service for the Section 272 affiliate, the BOC and other BOC affiliates, and nonaffiliates in each state where BST has been authorized to provide in-region interLATA services. If the Section 272 affiliate, or the BOC and other BOC affiliates are treated differently than nonaffiliates, note and describe all differences in the report. Describe in the report BST's internal controls and procedures designed to implement its duty to provide nondiscriminatory service.



2. For each state where BST has been authorized to provide in-region inter-LATA services, document in the working papers the processes and procedures followed by the BOC/ILEC to provide information regarding the availability of facilities used in the provision of special access service to its Section 272 affiliates, the BOC and other BOC affiliates, and nonaffiliates. Note any differences in the report. Inquire of management whether or not any employees of the Section 272 affiliates or BOC and/or other BOC affiliates have access to, or have obtained information regarding, special access facilities availability in a manner different from the manner made available to nonaffiliates (e.g., direct calls, placed prior to ordering, from the Section 272 affiliates or BOC account managers to employees who may have facilities availability information.) Disclose in the report any such instances.
3. For each state where BST has been authorized to provide in-region interLATA services, obtain the written methodology that BST follows to document time intervals for processing orders (on initial installation requests, subsequent requests for improvement, upgrades or modifications of service, or repair and maintenance), for provisioning of service, and for performing repair and maintenance services described in Procedure 4 below. Obtain this information for the Section 272 affiliate, as well as the BOC and other BOC affiliates. Briefly describe the methodology in the report. If the company does not have any written procedures, ask why and document the reason in the report.
4. For each state where BST has been authorized to provide in-region interLATA services, obtain and include as an attachment to the report, performance data maintained by BST during the engagement period, by month. Indicate time intervals for processing orders (on initial installation requests, subsequent requests for improvement, upgrades or modifications of service, and repair and maintenance), for provisioning of service, and for performing repair and maintenance services for the Section 272 affiliates, the BOC and other BOC affiliates, and nonaffiliates, as separate groups. Provide performance data for the following services:
  - Telephone exchange service, if any of the separate groups resells local service or intraLATA toll service.
  - Exchange access services for DSO, DS1, DS3, feature group D, and OCn, as individual groups; for the BOC and other BOC affiliate group, exchange access measurements should cover services provided to end users on a retail basis and services provided to affiliates on a wholesale basis.
  - Unbundled network elements, if any of the separate groups purchases unbundled network elements.
  - Presubscribed Interexchange Carrier (PIC) change orders for intraLATA toll services and interLATA services.

The table below should be used as guidance for the information to be included in the metrics. If no performance measures are applicable for both the “Section 272 affiliates” and the “BOC and other BOC affiliates” groups, performance metrics for nonaffiliates are not required. When reporting performance measures for the “nonaffiliates” group, only performance measures for the services purchased by the “Section 272 affiliates” and/or the “BOC and other BOC affiliates” need be reported. For each group (Section 272 affiliates, the BOC and other BOC affiliates, and nonaffiliates) and each service category (telephone exchange service, exchange access service, UNEs, and PIC change orders) combination in the table below for which BST makes a claim of “not applicable”, the practitioner must confirm independently that there are no such measurements to be reported, or get a representation letter from management as to why such measurements do not need to be reported in this engagement.

#### SUMMARY OF COMPANY TYPE AND SERVICE TYPES FOR PERFORMANCE MEASUREMENT REPORTING

Company Type	Telephone Exchange Service	Exchange Access Service (ASRs Only)	UNEs	PIC Change Orders (both interLATA and intraLATA PIC changes)
272 Affiliate	Included - if the 272 affiliate resells local service or intraLATA toll service	Included	Included if applicable	Included
Other Affiliates, Including the BOC(s)	Included - to measure services provided on a <b>Resale</b> basis	Included - to measure services provided to end users on a <b>Retail</b> basis, and <b>Wholesale</b> services provided to affiliates	Included if applicable	Included if applicable
Non-Affiliates (includes all entities purchasing services for resale or on a wholesale basis)	Included - to measure services provided on a <b>Resale</b> basis	Included	Included if applicable	Included

The performance measures should include the requested performance data by month for each state beginning with the first whole month of data following Section 271 approval for that state and ending on May 31, 2003 (the twelfth full month for which performance data is available).

For each of the above service categories, except for PIC change orders, the measurements shall be those that BST has committed to maintain in each Section 271 application to prove compliance with these nondiscriminatory requirements, as follows:

- a. Firm Order Confirmation (FOC) Timeliness - The average amount of time (in days) from the receipt of a valid service request to the distribution of a Firm Order Confirmation back to the originating carrier. This measurement is produced by dividing the sum of all FOC intervals by the total number of service requests confirmed in the reporting period. Indicate the total number of order requests for each service and for each group of customers.
- b. Average Installation Interval - The average interval (in days) between the application for service (ASR) by the carrier (or in some cases the issuance of the service order) and the actual completion of the service order expressed in days compared to the average BellSouth offered interval and the average requested customer desired due date (CDDD) interval. Each interval is calculated by dividing the sum of each interval (i.e., ASR to CDDD, ASR to FOC due date, and ASR to completion date) by the number of carrier service orders completed during the report period. Indicate the total number of service orders for each service and for each group of customers.
- c. % Installation Appointments Met - The percentage of installation commitments met during the current reporting period. This measurement is calculated by dividing the number of carrier installation orders completed during the report period on or before the BellSouth-provided commitment date by the total number of installation orders received from the carrier and committed to completion during the same report period. Indicate the total number of installation orders for each service and for each group of customers.
- d. Trouble Report Rate – Percentage of initial and repeated circuit-specific carrier trouble reports received per 100 circuits in service for the report period. The percentage is calculated by dividing the number of carrier trouble reports received by the number of carrier circuits in-service during the report period. Troubles per 100 circuits in service expressed as a %. Indicate the total number of circuit-specific trouble reports for each service, for each group of customers.
- e. Average Repair Interval - The average outage duration or interval (in hours) for trouble reports received from carriers. The repair interval starts at the receipt of the trouble report and ends when the trouble report is reported as cleared to the originating carrier. This measurement is calculated by dividing the total number of hours of outage for all carrier trouble reports received during the report period

by the number of carrier trouble reports received during the report period. Indicate the total number of trouble reports for each service, for each group of customers.

For PIC change orders, the measurements shall be as follows:

Average Installation Interval - PIC Changes – The average amount of time (expressed in hours) between the date/time the carrier's PIC-related order is placed and the date/time the PIC-related service order was completed. This time is calculated by dividing the number of hours/minutes required to complete all installation orders received from the carriers by the total number of installation orders received from the carriers during the same report period. Indicate the total number of PIC change orders for each group of customers.

Note and disclose in the report differences in time in fulfilling each type of request for the same services from the Section 272 affiliates, the BOC or other BOC affiliates, and nonaffiliates. Elicit explanations from BST where fulfillment of requests from nonaffiliates took longer than for either the Section 272 affiliates or the BOC or other BOC affiliates. Provide in the report a linear graph for each state, for each performance measure, for each service, over the entire engagement period, depicting the performance for the Section 272 affiliates, other affiliates, and nonaffiliates.

5. Choose a month and state at random from the last four months of available performance data (February, March, April, May, 2003). For each Section 272(e) performance metric and for each service category described above in Procedure 4, apply the business rules to the underlying data. Compare the results to those tracked and maintained by BellSouth Communications, Inc., for that performance metric. Applying the business rules must include all stages of the performance metric including definitions, exclusions, calculations, and reporting structure. Document any differences in the report.
6. Determine first by inquiry and then by inspection, how and where BST makes information available to unaffiliated entities regarding service intervals in the provision of any service to the Section 272 affiliate, the BOC or other BOC affiliates, and nonaffiliates. Document the results in the report.

**OBJECTIVE IX.** Determine whether or not the Bell Operating Company (BOC) and an affiliate subject to Section 251(c) of the Act have made available facilities, services, or information concerning its provision of exchange access to other providers of interLATA services on the same terms and conditions as it has to its affiliate required under Section 272 that operates in the same market.

## **STANDARDS**

The FCC in CC Docket No 96-149, Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended, indicates that a BOC may not discriminate in favor of its Section 272 affiliate in the following manner:

- by providing exchange access services to competing interLATA service providers at a higher rate than the rate offered to its Section 272 affiliate. (See First Report and Order, para. 16)
- by not making available facilities and services to others on the same terms, conditions and prices that it provides to its Section 272 affiliate. (See First Report and Order, para. 316)

**PROCEDURES:** This objective is closely related to Objective XI that contains procedures for the provision by BST of interLATA facilities and services. Therefore, these procedures may be performed in conjunction with the procedures for Objective XI.

1. Obtain a list of exchange access services and facilities, with their related rates, offered to the Section 272 affiliate. Inspect to determine whether BST makes these services and facilities available at the same rates and on the same terms and conditions to all carriers. For this purpose, request and inspect brochures, advertisements of any kind, bill inserts, correspondence, or any other media used to inform carriers of the availability of these services. Using a statistically valid sample of the services identified above, compare rates, terms, and conditions offered to the Section 272 affiliate with those offered to unaffiliated carriers. Note all exceptions in the report.
2. Request and obtain a listing of all billed items for exchange access services and facilities, by BAN, for one month (to be determined by the Oversight Team after discussion with BST) rendered by BST to the Section 272 affiliate and other interexchange access carriers (IXCs). From the items billed to the Section 272 affiliate, select a statistically valid sample of billed items. For each selected Section 272 affiliate billed item, obtain a list of all IXCs that were billed the same item. From the list randomly select an IXC and compare the rates charged to the IXC and the terms and conditions applied to the IXC with those charged and applied to the Section 272 affiliate for the same services. Note any differences, pursue them further through inquiry of appropriate personnel, document why they occurred, and disclose them in the report. For

those services that were billed to the Section 272 affiliate and not to other IXC's, determine whether these services were made available to nonaffiliates and note results in the report. If the independent auditor should find more than five services made available to the Section 272 affiliate but not to other IXC's, the independent auditor will contact the Oversight Team before proceeding.

3. Document in the report the process by which the listing of invoices obtained in Procedure 2 above is processed in the revenue system of BST. Reconcile the total amount billed to the section 272 affiliate from the invoices obtained in Procedure 2 to the amount recorded in the BST books and records. Using the list of invoices billed by BST to the section 272 affiliate obtained in Procedure 2 above, reconcile the amounts invoiced for exchange access services to the section 272 affiliate with the amount recorded by the section 272 affiliate in its payables system. Compare the amount recorded in the section 272 affiliate payables system with the amount paid to BST for this purpose. Identify and inspect method of payment such as cancelled checks, wire transfers, and, if needed, summaries of invoiced amounts corresponding to the amount paid. Note any differences, inquire why they occurred, and disclose them in the report.

**OBJECTIVE X.** Determine whether or not the Bell Operating Company (BOC) and an affiliate subject to Section 251(c) of the Act have charged its separate affiliate under Section 272, or imputed to itself (if using the access for its provision of its own services), an amount for access to its telephone exchange service and exchange access that is no less than the amount charged to any unaffiliated interexchange carrier for such service.

### **STANDARDS**

The FCC has issued rules and regulations in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended. These rules require that,

- A BOC may not discriminate in favor of its Section 272 affiliate by providing exchange access services to competing interLATA service providers at a higher rate than the rate offered to its Section 272 affiliate (See First Report and Order, para. 16). This requirement is met,
  - If the affiliate purchases exchange service and exchange access service at tariffed rates. (See First Report and Order, para. 256)
  - If the affiliate acquires services or unbundled elements from a BOC at prices that are available on a nondiscriminatory basis under Section 251. (See First Report and Order, para. 256)
  - If the BOC files with the State Commission a statement of generally available terms pursuant to Section 271(c)(1)(B) which would include prices that are available on a nondiscriminatory basis in a manner similar to tariffing, and a BOC's Section 272 affiliate obtains access or interconnection at a price set forth in the statement. (See First Report and Order, para. 256)
  - If a BOC makes volume and term discounts available on a nondiscriminatory basis to all unaffiliated interexchange carriers. (See First Report and Order, para. 257)
- BOCs are required to charge nondiscriminatory prices, and to allocate properly the costs of exchange access according to the affiliate transactions and joint cost rules. (See First Report and Order, para. 258)
- For integrated operations (for operations performed within the company and not under a separate affiliate), a BOC must impute to itself an amount for access to its telephone exchange service and exchange access that represents tariffed rates (See First Report and Order, para. 256). This tariffed rate must be the highest rate paid for access by unaffiliated carriers. The BOC may consider the comparability of the service provided. (See CC Docket No. 96-150 Report and Order, para. 87)

## **PROCEDURES**

1. Obtain a list of all interLATA services offered by BST and discuss list with appropriate BST employees to determine whether the list is comprehensive. Compare services appearing on the list with interLATA services disclosed in the BST's Cost Allocation Manual (CAM) and note any differences in the report. Compare the nonregulated interLATA services listed in BST's CAM with those defined as incidental in Section 271(g) of the Act and those interLATA services allowed under FCC order (for example E911) and note any differences and disclose them in the report.
2. From the list of services obtained in Procedure 1 above, by using a statistically valid sample of interLATA services offered by BST and not through an affiliate, determine whether BST is imputing (charging) to itself an amount for access, switching, and transport. If so, obtain the calculation prepared by management to support these amounts. Obtain usage details and tariff rates for each of the above elements. Match rates used in calculations with the tariff rates or those rates charged other interexchange carriers (IXCs). Note any differences in the report. Trace amount to the journal entry and to the general ledger of BST. The entry should be a debit to nonregulated operating revenues (decrease) and a credit to regulated revenues (increase). If the process followed by BST is different from the one described above, disclose in the report.
3. Document the total amount the affiliate has recorded in its books for each of the following categories of services: exchange access services, local exchange services, and unbundled network elements, provided by BST to the Section 272 affiliate for the period June 1, 2002 through May 23, 2003. Reconcile the amount the affiliate paid to BST with the amount of revenue reflected in BST's books for these services. Disclose differences, if any, in the report.



**OBJECTIVE XI.** Determine whether or not the Bell Operating Company (BOC) and an affiliate subject to Section 251(c) of the Act have provided any interLATA facilities or services to its interLATA affiliate and made available such services or facilities to all carriers at the same rates and on the same terms and conditions, and allocated the associated costs appropriately.

## **STANDARDS**

Valuation and recording of procedures for sales or transfers of any interLATA or intraLATA facilities to any Section 272 affiliate, the leasing of any unbundled network elements, or the provision of any service by the BOC to any Section 272 affiliate are covered in Objectives V and VI of this program, under the affiliate transactions rules.

BOC services and unbundled network elements made available under Section 251 to each Section 272 affiliate must also be made available at the same price to unaffiliated companies. (See CC Docket No. 96-149, First Report and Order, para. 256)

**PROCEDURES:** This objective is closely related to Objective IX, which contains procedures for the provision, by BST of exchange access services. Therefore, these procedures may be performed in conjunction with the procedures for Objective IX.

1. Obtain list of interLATA services and facilities, with their related rates, offered by BST to the Section 272 affiliate. Determine whether BST makes these services and facilities available at the same rates, terms, and conditions to all carriers. For this purpose, request and inspect brochures, advertisements of any kind, bill inserts, correspondence, or any other media used to inform carriers of the availability of these services. Using a statistically valid sample of the services identified above, compare rates, terms, and conditions offered the Section 272 affiliate with the rates, terms, and conditions offered unaffiliated carriers. Disclose differences in the report.
2. Request and obtain a listing of all billed items for interLATA services and facilities, by BAN, for one month (to be determined by the Oversight Team after discussing with BellSouth Telecommunications, Inc.) rendered by BST to the Section 272 affiliate and other interexchange access carriers (IXCs). From the items billed to the Section 272 affiliate, select a statistically valid sample of billed items. For each selected billed item, obtain a list of all IXCs that were billed the same item. From the list, randomly select an IXC and compare the rates charged to the IXC and the terms and conditions applied to the IXC with those charged and applied to the Section 272 affiliate for the same services. Note any differences, pursue them further through inquiry of appropriate personnel, document why they occurred, and disclose them in the report.

For those services that were billed to the Section 272 affiliate and not to other IXCs, determine whether these services were made available to nonaffiliates and note results in the report. If the practitioner should find more than five services made available to the

Section 272 affiliate but not to other IXCs, the practitioner will contact the Oversight Team before proceeding.

3. Document in the report the process by which the listing of invoices obtained in Procedure 2 above are processed in the revenue system of BST. Reconcile the total amount billed to the Section 272 affiliate from the invoices obtained in Procedure 2 to the amount recorded in the BST books and records.

Using the list of invoices billed by BellSouth Telecommunications, Inc. to the Section 272 affiliate obtained in Procedure 2 above, reconcile the amounts invoiced for interLATA services and facilities to the Section 272 affiliate with the amount recorded by the Section 272 affiliate in their payables system. Compare the amount recorded in the Section 272 affiliate payables system with the amount paid to BST. For this purpose, identify and inspect method of payment such as cancelled checks, wire transfers, and, if needed, summaries of invoiced amounts corresponding to the amount paid. Note any differences, ask why they occurred, and disclose them in the report.

## **Procedures for Subsequent Events**

1. Inquire of management whether companies' processes and procedures have changed since the time of execution of these procedures and May 24, 2003. If so, identify those changes and re-perform the related procedures to determine continued compliance with those requirements. Disclose in the report changes and results of the procedures re-performed.
2. Inquire of and obtain written representation from management as to whether they are aware of any events subsequent to the engagement period, but prior to the issuance of the report, that may affect compliance with any of the objectives described in this document. Disclose in the report any such event.

## **Procedures for BellSouth Carrier Professional Services (BCPS)**

BellSouth Carrier Professional Services (BCPS) is a BellSouth Corporation affiliate, although not a Section 272 affiliate. Nevertheless, the JOT agrees to honor BellSouth Corporation's request to expand in part the scope of the Section 272 Biennial Audit to include BCPS by performing selected procedures for BCPS. The results of these procedures should appear separately in their own section of the final audit report.

### **Procedures for BCPS**

Objective I:	All Procedures
Objective II:	All Procedures
Objective III:	All Procedures
Objective IV:	All Procedures
Objective V/VI:	Procedures 2, 3, 4, 6, 7, 8, 9, 10
Objective VII:	Procedures 1, 2, 3, 4
Objective VIII:	Procedures 1, 2, 3, 6
Objective IX:	Procedure 1
Objective X:	Procedure 3
Objective XI:	Procedure 1